

**UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA**

In re:	)	District Court Case No.
	)	2:23-cv-02843-DMG
PH DIP INC.,	)	Bankruptcy Court Case No.
	)	2:18-bk-15972-WB
Debtor.	)	Adversary Case No.
	)	2:20-ap-01691-WB
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YU ZHENG,	)	<b>ORDER ACCEPTING REPORT AND RECOMMENDATION OF UNITED STATES BANKRUPTCY JUDGE ON DEFENDANT’S MOTION FOR SUMMARY JUDGMENT</b>
	)	
Plaintiff,	)	
	)	
v.	)	
JAMES WONG,	)	
	)	
Defendant.	)	

This matter is before the Court on the Report and Recommendation of the United States Bankruptcy Court (“R&R” or “Report”), filed herein on April 17, 2023. [Doc. # 2.]<sup>1</sup> The Bankruptcy Court has elected to treat this adversary proceeding as a non-core

<sup>1</sup> **Error! Main Document Only.**“Doc. #” denotes the docket number assigned to the document upon the filing of the document with the CM/ECF filing system of the District Court. “ABC Doc. #” denotes the docket number as to documents filed in the Bankruptcy Court and in connection with the adversary proceeding, No. 2:20-ap-01691-WB. “BC Doc. #” denotes the docket number as to

1 matter under 28 U.S.C. §157(c) and has submitted to this Court its R&R on Defendant  
2 James Wong’s Motion for Summary Judgment (“MSJ”). [ABC Doc. ## 104-107.]

3 Pursuant to 28 U.S.C. § 157(c), the Court has reviewed Plaintiff Yu Zheng’s (also  
4 known as Brian Zheng) First Amended Complaint [ABC Doc. #19], Wong’s Motion,  
5 Zheng’s Opposition [ABC Doc. ## 114–116], Wong’s Reply [ABC Doc. ## 117–118],  
6 the R&R, Zheng’s Objection to the R&R [Doc. # 3], Wong’s Response [Doc. # 10  
7 (“Objs. Resp.”)], and the remaining record, and has made a *de novo* determination. The  
8 Court approves and adopts the Report and Recommendation and overrules all Objections.

9 The Bankruptcy Judge recommends granting Defendant Wong’s Motion and  
10 entering judgment in his favor based on the application of quasi-judicial immunity. For  
11 the following reasons, Zheng’s Objections do not warrant a change to the Bankruptcy  
12 Judge’s findings or recommendation.

13 Zheng objects to the Bankruptcy Court’s application of quasi-judicial immunity.  
14 See Objections at 5 [Doc. # 3]. Zheng makes five objections to the R&R. *Id.* at 5–7.  
15 Each objection is addressed below.

16 First, Zheng objects that the Report incorrectly finds that Wong was acting within  
17 the scope of his authority as Chief Restructuring Officer (“CRO”) of Debtor PH DIP,  
18 Inc., formerly known as Playhut, Inc. (“Debtor”), when Wong held the Artwork<sup>2</sup> at issue  
19 in this action as “hostage” to use as leverage against Zheng. *Id.* at 5 (citing R&R at 15–  
20 16); *see also id.* at 8–13. The Bankruptcy Court looked to the duties and responsibilities  
21 of the CRO as delineated by the appointment motion. *See* R&R at 6–7, n.5. Ultimately,  
22 the Bankruptcy Court found that the CRO acted within the scope of his authority under  
23 the CRO order with respect to the Artwork. *See id.* at 15–16. Even though the parties  
24 dispute ownership of the Artwork, the R&R explains that the actual ownership of the

25  
26 documents filed in the Bankruptcy Court and in connection with the core proceeding, 2:18-bk-15972-  
27 WB.

28 <sup>2</sup> “Artwork” is defined as 40 pieces of art stored at PH DIP, Inc.’s warehouse. *See* R&R 2–3.

1 Artwork is immaterial because it is still “incumbent” on Wong to determine the  
2 Artwork’s ownership and disposition, which he did. *Id.* at 9, 17.

3 If the estate had an interest in the Artwork, Wong was acting within his authority  
4 as CRO to “maximize value for the estate.” R&R at 15–16. Moreover, Zheng’s reliance  
5 on *Leonard v. Vrooman* is misplaced. *See* Objs. At 8 (citing *Leonard*, 383 F.2d 556, 560  
6 (9th Cir. 1967)). In *Leonard*, a receiver took forcible possession and effected a lockout  
7 of a piece of real property that may have belonged to the debtor. *Id.* at 558. Although  
8 there had been a questionable transfer of the property in question, the debtor was not the  
9 legal owner of that piece of real property at that time. *Id.* By taking forcible possession  
10 of the building, the receiver for the bankruptcy estate acted outside of his authority. *Id.* at  
11 560. Here, the CRO already had access to the Debtor’s warehouse by virtue of his  
12 appointment as CRO, and the Debtor’s warehouse contained the disputed Artwork. *See*  
13 R&R at 6–7, n.5 (describing Wong’s authority as CRO). The Bankruptcy Judge did not  
14 err in finding that Wong was acting within his authority with respect to the Artwork, nor  
15 is there any evidence of bad faith in his performance of his duties. *Cf.* Objs. at 19–20.  
16 Indeed, Zheng’s objections “make[] no new arguments that quasi-judicial immunity  
17 should not apply” and the Court overrules any such objections. *See* Objs. Resp. at 4, 11–  
18 12.

19 Next, Zheng objects that the Report incorrectly disregarded portions of his  
20 declaration concerning when Zheng apprised Wong of his ownership over the Artwork,  
21 on the basis that the declaration was conclusory and self-serving. Objs. at 13–15; *see*  
22 *also* R&R at 16–17. The Bankruptcy Court correctly found that the relevant statement  
23 lacked sufficient detailed supporting facts to create a dispute of material fact. *See* R&R  
24 at 16–17 (citing, *inter alia*, *SEC v. Phan*, 500 F.3d 895, 910 (9th Cir. 2007)); *see also*  
25 *F.T.C. v. Publ’g Clearing House, Inc.*, 104 F.3d 1168, 1171 (9th Cir. 1997), *as amended*  
26 (Apr. 11, 1997); Objs. Resp. at 3, 11.

27 Additionally, Zheng objects to the Bankruptcy Court’s finding that “Wong, as  
28 CRO, was the functional equivalent of a chapter 11 trustee.” Objs. at 20–22. Again, the

1 Bankruptcy Court concluded that he was acting as a CRO with clearly delineated duties,  
 2 and the Ninth Circuit’s “functional approach” compels the conclusion that he is entitled  
 3 to quasi-judicial immunity. *See* R&R at 14–15; *see also* *Burton v. Infinity Capital Mgmt.*,  
 4 862 F.3d 740, 747–48 (9th Cir. 2017) (citation omitted). Under controlling Ninth Circuit  
 5 precedent, bankruptcy trustees and “court appointed officers who represent the estate are  
 6 the functional equivalent of a trustee.” *In re Harris*, 590 F.3d 730, 742 (9th Cir. 2009)  
 7 (quoting *In re Crown Vantage, Inc.*, 421 F.3d 963, 973 (9th Cir. 2005); *see also* *Bennett*  
 8 *v. Williams*, 892 F.2d 822, 823 (9th Cir. 1989) (“Bankruptcy trustees are entitled to broad  
 9 immunity from suit when acting within the scope of their authority and pursuant to court  
 10 order.”). Here, Zheng merely disagrees that a CRO is a functional equivalent to a trustee,  
 11 and points to contrary and unpersuasive authority. *See* Objs. at 21–22. Zheng has failed  
 12 to identify any error by the Bankruptcy Court.

13 Lastly, Zheng objects to the portion of the Report where the Bankruptcy Court  
 14 finds that “Wong was acting within the scope of his authority when he performed his  
 15 duties on behalf of Debtor to fulfill Debtor’s obligations under the Sale Order.” Objs. at  
 16 22 – 24; *see also* R&R at 18. Zheng argues that Wong was not acting within his  
 17 authority as CRO with respect to the Personal Data contained on Debtor’s computers  
 18 which was sold to the buyer “Basic Fun.”<sup>3</sup> *Id.* Zheng mischaracterizes the facts to argue  
 19 that Wong withheld the Personal Data from him, but the undisputed facts demonstrate  
 20 that Wong did not learn about the Personal Data until after Wong, as CRO, sold  
 21 substantially all of Debtor’s assets pursuant to the Sale Order. *See* R&R at 17; Objs.  
 22 Resp. at 13. The Sale Order was entered into on October 3, 2018 and Zheng reached out  
 23 to Wong on October 7, 2018, after the Sale Order’s entry. *Id.* at 17, 8–9, 10. While  
 24 Zheng admitted in the FAC that he stored the Personal Data on Debtor’s servers, *see id.*  
 25 at 3, his objections ignore that Wong had the authority and permission of the Bankruptcy  
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27 <sup>3</sup> “Personal Data is defined as “personal data, design files, accounting files, business contact  
 28 information and more (“Personal Data”), on Debtor’s server (FAC ¶¶10–11).” R&R at 3.

1 Court to sell the Debtor's property as CRO and through the Sale Order. *Id.* at 8–9.  
2 Zheng's argument that the "Personal Data" was not listed in the assets is of no  
3 consequence. *See* Objs. at 23–24. As the Report points out, the CRO was authorized to  
4 sell the Debtor's assets pursuant to the Asset Purchase Agreement ("APA"), which  
5 included all "records," defined to include the type of information in the Personal Data.  
6 *See* R&R at 8–9, 17–18. This objection has no merit. *See* Objs. Resp. at 13.


7 In sum, Zheng's objections are overruled.

8 Accordingly, IT IS ORDERED THAT:

- 9 1. The Report and Recommendation is approved and accepted;  
10 2. Judgment be entered in favor of Defendant James Wong; and  
11 3. The Clerk serve copies of this Order on the parties.

12  
13 **IT IS SO ORDERED.**

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15 DATED: January 5, 2024

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17 DOLLY M. GEE  
18 UNITED STATES DISTRICT JUDGE  
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